1974 REPORT

LEGISLATIVE RESEARCH COMMISSION

A STUDY OF HOME FINANCING IN NORTH CAROLINA

STATE OF NORTH CAROLINA
LEGISLATIVE RESEARCH COMMISSION
STATE LEGISLATIVE BUILDING
RALEIGH 27611

TO THE MEMBERS OF THE GENERAL ASSEMBLY:

The Legislative Research Commission herewith reports to the 1973 General Assembly, Second Session 1974, the findings and recommendations of its Special Committee on Home Financing. The study by the Special Committee was done under the authority of General Statute 120-30.17(1).

Respectfully submitted,

Gordon P. Allen James E. Ramsey

Co-Chairmen

Legislative Research Commission

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INTRODUCTION

On September 20, 1973, Senator Gordon P. Allen, the President Pro Tempore of the Senate, and Representative James E. Ramsey, the Speaker of the House of Representatives, in their capacities as co-chairmen of the Legislative Research Commission established the Special Committee on Home Financing of that Commission. The appointment of the Special Committee was authorized by North Carolina General Statute (G. S.) 120-30.17(1). The Special Committee was directed "to confine its work to recommending a solution to the problem of the scarcity of loan funds for home financing in North Carolina."

Senator Philip P. Godwin and Representative Daniel T. Lilley were appointed co-chairmen of the Special Committee. The other legislative members of the Committee were Senators Bob L. Barker, John T. Henley and George Rountree, III, and Representatives Lloyd Hise, Jr., Craig Lawing and John S. Stevens. The following were public members of the Committee: Mr. Homer Barrett, Mr. James L. Bichsel, Mr. Robert Cashion, Mr. Richard Clark, Mrs. Ruth E. Cook, Mr. Nick DeMai, Mr. W. W. Edwards, Mr. Stephen R. Kenney, Mr. Claude Pope, Mrs. Helen Roach, Mr. John S. Stewart, Mr. H. W. Wentworth and Mrs. Lillian Woo.

COMMITTEE PROCEEDINGS

The Committee held its first meeting on October 12, 1973. There were a total of five meetings held, at three of which interested persons appeared to testify as to the current situation of the home loan martgage market and possible solutions to the problems confronting it. The individuals, who testified, included: the North Carolina State Treasurer, an economist and former vice president of the Federal Reserve Bank of Richmond, a vice president of the Federal Home Loan Bank of Atlanta, which supervises the federally-insured savings and loan associations in North Carolina, a home builder, a mortgage banker, and various savings and loan association officials. A complete list of witnesses who appeared and whom they represented is found in Appendix I. The Committee's work was aided immeasurably by the testimony of these expert witnesses and by the materials which they presented.

At the initial meeting the Committee noted both the severity of the crisis and the need for an immediate solution to the pending problem. The Committee decided to focus its attention primarily on the usury rate as applicable to home loan mortgages.

The law of this State which regulates the interest on mortgage loans is found in North Carolina General Statutes 24-1.1 (see Appendix II). That statute established the following maximum interest rates on first mortgage loans

where the principal amount is:

1. $50,000 or less, eight percent (Subsection 1);
2. more than $50,000 but not more than $100,000, nine percent (Subsection 3);
3. more than $100,000 but not more than $300,000, twelve percent (Subsection 4);
4. more than $300,000, any rate agreed upon by the parties (Subsection 5).

G. S. 53-45(e) exempts from the force of the usury law loans made under federal programs such as the Veterans Administration's loan guarantee program and the Federal Housing Administration's home loan insurance program. The language of this exception is found in Appendix II.

Because the majority of home loans in this State are made for amounts of $50,000 or less, the Committee undertook to study the effect of the eight percent ceiling found in G. S. 24-1.1(1) on the availability of credit for the purchase of homes costing that sum or less.

The Committee first examined the immediate past history of the usury law relating to this area of financing. It was learned that, since 1967, the ceiling on interest rates for home mortgage loans has been raised twice and that this is the fourth time in seven years that relief from the usury ceiling has been requested of the General Assembly. Chapter 852 of the 1967 Session Laws raised the rate from the standard usury rate of six percent to seven percent for home loans. In 1969 the home loan rate was raised again by Chapter 1303 of

that year's Session Laws to the present eight percent. Proposals which would have changed the eight percent maximum were introduced into, but did not pass, the 1971 General Assembly. These changes and requested changes occurred during periods of "tight money", that is, those periods when the cost of obtaining money rises.

The North Carolina Supreme Court has held that "the policy of the Legislature in adopting statutes of usury is the protection of borrowers against the oppressive exactions of lenders." (Pinnix v. Casualty Co. 214 N. C. 760,768 (1938)). The question presented this Committee is whether the usury statute in periods of "tight money" accomplishes the purpose for which it was enacted.

The Committee examined in detail the methods employed by other states in dealing with the regulation of the interest rates of home mortgage loans. There are three basic approaches.

The first is the one taken by a majority of the states, North Carolina, among them. This method consists of establishing a fixed maximum interest rate for home loans. Contracts allowing interest in excess of this rate are illegal. This method is used by all the states bordering ours, except one. South Carolina has a maximum of nine percent (South Carolina Code Section 8-3); Georgia, the same (Georgia Code Annotated Section 57-101.1); and Tennessee, ten percent (Tennessee Code Annotated Section 47-14-104).

The second method of dealing with this problem is to establish a flexible or variable interest rate ceiling. This

approach would seek to retain some control over the amount which lenders could charge but would allow the maximum rate which could be charged to vary from time to time as the market forces dictate. This method has two variations. In the first variation the flexible rate would be fixed to an external standard. The standard would be one of the national or regional money market rates. This is the path followed by Alaska (Alaska Statutes Section 45.45.010). There the usury rate for home loans is established at 4½ percentage points "above the annual rate charged member banks for advances by the 12th Federal Reserve district." The Governor's Commission on Mortgage and Interest Rates of the State of Pennsylvania recommended to the legislature there that the maximum be pegged at 2½ percentage points above the United States government long-term bond rate. The Commission's recommendation was rejected by the Pennsylvania legislature.

The second variation of the flexible interest rate ceiling is found in the New York law regulating interest rates (New York General Obligations Law Section 5-501). New York Banking Law Section 14-a authorizes that state's Banking Board to "from time to time but not more often than six times a year . . . prescribe by regulation an interest rate of not less than five per centum per annum nor more than eight per centum per annum" to insure the availability of credit at reasonable rates. In the case of the unavailability of credit especially in the conventional home mortgage market the Banking Board, upon the recommendation of the Superintendent of Banks, may raise the

the ceiling by an additional ½ percentage point. On October 3, 1973, the New York Banking Board raised the maximum interest rate on home mortgage loans to 8½ percent.

The third and last general approach to this problem is the one in which Virginia (Code of Virginia Section 6.1-319.1), and four other states, have followed. This method is to establish no usury ceiling on home loans at all. This permits the widest latitude for lenders within the state to respond to the supply and demand of money on the national market. Under this approach the interest rates fluctuate freely with market conditions.

FINDINGS

After hearing the testimony of the expert witnesses and after evaluating the material presented to it, the Committee makes the following findings:

1. The cost of obtaining money has risen sharply within the past year. The federal government through the Federal Reserve System has pursued in recent months a restrictive monetary policy in order to bring under control the rampant inflation plaguing this nation. The purpose of this restrictive monetary or "tight money" policy has been to draw surplus dollars out of general circulation. The Federal Reserve System has accomplished this by increasing the reserve requirements of member banks and by steadily increasing the discount rate charged for money loaned to those banks. The discount rate as of October 31, 1973, was an unprecedented 7½ percent, the last change being made was from 7 percent in August of 1973. (Source: Federal Reserve Bulletin, November, 1973, Table 8A.)

These efforts together with burgeoning demands for credit of all kinds have produced sharply higher interest rates in the nation's money markets. The average interest rate for prime commercial paper for delivery in 90 to 119 days for the month of October, 1973, was 9.14, down from the September average of 10.31 percent, and yet both are still well above the eight percent North Carolina usury rate level. This movement roughly mirrors that of the interest rate on three

month government bills also found in Appendix III. The importance of these figures is that they show the increase in the amount of return necessary to attract investors.

Auctions conducted by the Federal National Mortgage Association (FNMA) are good indicators of the type of return which is necessary to attract national institutional investors to the home mortgage loan market. The FNMA is a publicly-owned, semi-governmental agency which regularly holds auctions to buy mortgages. Approved banks, mortgage bankers and savings and loan associations can enter bids at these auctions to sell home loans to the Federal National Mortgage Association

The average gross yield rates bid at such auctions are exempted from the limitations of the usury statute by G. S. 53-45(e), the language of which is found in Appendix II. The average gross yield combines the interest rate and the fees charged on the average home mortgage loan auctioned during the stated period.

On March 20, 1973, the national average gross yield demanded by national investors for conventional home mortgages crossed the North Carolina usury rate of eight percent. As of October 1, 1973, the average gross yield on conventional home mortgages auctioned by the FNMA stood at 9.430 percent--almost one and one-half percentage points above the legal ceiling in this State for interest on home loans. The yield has fallen in recent weeks but it is still above the eight percent level. (See Appendix IV.)

2. <u>North Carolina is a capital-importing state</u>. The inflow of capital from out-of-state, members of the Committee representing the mortgage bankers of this State testified, is vital to the health and well-being of all segments of this State's economy, especially those of home building and home financing. A lengthy period of no inflow or of an outflow of investment money is potentially harmful for the economy of North Carolina.

One Committee member stated that his mortgage bank had imported more than 150 million dollars in capital from savings and loan associations in other states in 1971 and 1972. Another member said that his mortgage banking firm brought over 40 million dollars into North Carolina in the first six months of 1973. He added that his firm has been unable to attract any out-of-state funds since July 1, 1973. He suggested that his firm's situation is typical of those of other mortgage banks in this State.

3. <u>The present usury ceiling of eight percent for home loans tends to drive needed capital from North Carolina in periods, like the present, of tight money</u>.

(a) <u>When market rates on money go above the usury level, profit margin requirements tend to restrict mortgage bankers to those loans which are exempted from the force of the usury statute</u>.

Conventional home mortgage loans are subject to the usury statute by G.S. 24-1.1. Loans guaranteed or insured by the federal agencies are exempt from the usury statute by G.S. 53-43(e). If the average gross yield from Federal National

Mortgage Association auctions is a true reflection of the amount of return demanded by national investors for the use of their money, then mortgage banks will have difficulty in getting investors to take up conventional home loans at eight percent or below when the average gross yield approaches or goes above the usury level.

The average gross yield from Federal National Mortgage Association was 9.340 percent on October 1, 1973. Testimony from mortgage bankers indicates that when such rates of return are demanded by investors mortgage banks tend to make only those loans which are subject to exception from the usury level.

(b) Savings and loan associations are being injured by the interest rate ceiling in two ways. Savings and loan associations, it was estimated, make up to 80 percent of the conventional home loans which are closed in this State. Savings and loan associations depend primarily upon their depositors for the capital with which to make new loans. Federally-insured savings and loan associations are authorized to pay their depositors up to 7.5 percent interest on savings. However, they are unable to do so because of reserve requirements and the narrowing margin between the cost of money and the maximum that can be charged borrowers under the usury rate. The savings and loan associations of this State are unable to offer a high enough interest rate to depositors to attract new savings or keep old accounts during periods when other investments can give a greater return.

This is illustrated by the table in Appendix V which charts the savings inflow and outflow of federally-insured

savings and loan associations during the last two years. It will be noted that for the first six months of 1972 there was a gain of savings of 311.7 million dollars, whereas for the same period in 1973 there was a gain of only 248.9 million dollars. Thus there was a drop in savings of approximately 62.8 million dollars or 20 percent of the total for 1972. In August of 1973, there was a withdrawal of savings of 5.6 million dollars from federally-insured institutions. These figures show one result of the present usury rate in North Carolina--the inability of savings and loan associations to pay enough return on investments to attract and keep deposits and the subsequent withdrawal of same.

Savings and loan associations are also injured, like mortgage bankers, in that they are unable in periods of tight money to utilize the large institutional investment funds which are available. It is in these periods of reduction of net savings inflow that savings and loan associations normally go to the Federal Home Loan Bank to borrow funds to meet the home loan needs of the citizens of this State. The FHLB issues bonds for purchase by the public in order to generate capital to loan to its member savings and loan associations.

From July 1, 1972 to July 1, 1973, of the 1.382 billion dollars loaned on home mortgages by savings and loan associations in this State only 146 million dollars or 10.5 percent of the total was borrowed from the FHLB. Thus this source is usually of little influence on the home loan market. However, during the critical period in 1973, savings and

loan associations were unable to tap this vital source. For example on September 21, 1973, the FHLB made an offering of 2.5 billion dollars at 8½ percent interest for delivery in six months. The Fourth Federal Home Loan Bank of Atlanta, of which North Carolina is a part, was offered 325 million dollars. Obviously, North Carolina savings and loan associations are reluctant to assume any of that offering at 8½ percent when the associations may charge only at the maximum eight percent.

4. <u>There is a decrease in home purchasing since June of 1973 in North Carolina</u>. This is indicated by a drop in mortgage loans closed by federally-insured savings and loan associations of 83.3 million dollars from June to October, 1973. The dollar amount of mortgage loans closed dropped from 112.5 to 70.3 million dollars or 37.5 percent from the October, 1972 to the October, 1973 figures. (See Appendix VI).

While there were no state-wide figures available, the Committee learned that in the month of September, 1973, there was a decrease in dollar amounts of sales by realtors of 9.1 percent nation-wide, and a decrease in the South of .6 percent. Guilford County, one of the most populous in this State, reported that building permits were down 31.4 percent.

5. <u>Statistics necessary for a complete and thorough analysis of the problems surrounding the home financing market in North Carolina were difficult to gather and interpret in the short period of time which the committee has had for its study</u>. The Committee had access to statistics compiled by the

Federal Home Loan Bank for those savings and loan associations insured by the Federal Savings and Loan Insurance Corporation.(FSLIC) However, 14 of the 177 savings and loan associations doing business in North Carolina are not insured by the FSLIC and therefore are not included in the FHLB data. The Savings and Loan Division of the State Department of Commerce compiles yearly data on these 14 institutions together with all the other state-chartered savings and loan associations. However, these statistics are of limited help in an analysis of the effect of "tight money" on the usury rate because they are not recorded on a monthly or quarterly basis.

Statistics on the mortgage banking industry are not readily available because they are not compiled by the industry itself or by the state or federal governments.

Figures which might prove useful in an analysis of the "tight money" problem and its relationship to home financing in North Carolina would include monthly statistics for the last two years on: the savings inflow or outflow in all savings and loan associations operating within the state; the average interest rate paid by all savings and loan associations to their depositors; the number and dollar amount of home sales, the average interest rates charged to home borrowers by each type of lender; the profit picture of mortgage banks and savings and loan associations; the average fees and costs over and above the interest rate paid by home borrowers to institutional lenders.

RECOMMENDATIONS

The Special Committee on Home Financing of the Legislative Research Commission makes the following recommendations, which have been included in the Appendix as specific legislative proposals:

1. The interest rate ceiling on first home mortgage loans ought to be eliminated for a temporary trial period.

(See Appendix VII, Legislative Proposal A.)
The Committee proposal, if passed, would eliminate the usury ceiling on such loans for the period from the ratification of the Act until June 30,1975. It was thought by the majority of the committee members that the past history of the usury statute relating to home loan mortgages indicated that the placing of the usury rate at a new higher fixed rate could ultimately be as restrictive as the 1967 attempt by the General Assembly to place the ceiling at 7 percent or the 1969 barricade of 8 percent. Another objection voiced to any fixed rate is that inherent in it is a tendency for the interest rates to move up to the fixed ceiling.

The Committee decided against establishing a variable interest ceiling, as Alaska and New York have done and as the Commission in Pennsylvania proposed, for several reasons. The initial problem confronted is in choosing the standard or standards at which to peg the rate. Experts' testimony suggested that there was no standard which adequately mirrored the flow of funds on the national mortgage money markets.

Also the Committee was concerned that such a standard, even if a satisfactory one were found, might not change fast enough to reflect the changes in the national market. Thirdly, the feasibility of enforcing such a variable rate was doubted by a majority of the members. It was felt that the enforcement mechanism would be too large and cumbersome.

The Committee decided that "the protection of the borrowers against the oppressive exactions of lenders," during the suggested trial period lay in three principal safeguards. The first and most important of these, the Committee felt, was the great degree of competition in the home loan market of this State. Experts from the lending, home-building, real estate industry and from a federal regulatory agency testified that competition between lenders would assure North Carolina borrowers of a supply of home loan mortgage money at the lowest possible price.

Secondly, the next greatest defense and protection to the purchaser of a home loan is the consumer himself. The Committee thought that the average home loan borrower is a sophisticated borrower who will shop for the best possible terms on such a major investment.

The third source of protection for the borrower during the trial period lies in the nature of the trial period itself. When the trial period ends on June 30, 1975, unless there is further legislative action by the General Assembly, a repealer clause (Section 2 in Legislative Proposal A) would automatically reinstate the present statutory scheme. Thus on June 30, 1975, the present law would be effective again. The lending

institutions would by this provision be under pressure to make this trial period a fair test of the degree of competition in home financing in this State. There would be a continuous review during the test period by all concerned groups of the degree of competition in the area of home financing. This would also provide for a review of the desirability of eliminating the interest rate ceiling permanently. The automatic reverter would, it was believed, protect consumer interests against the inertia in the legislative process which militates against a change in already-enacted law.

The Special Committee on Home Financing in choosing this method was mindful of the Virginia experience without an interest rate ceiling. Witnesses testified as to the success of that model in getting money to home buyers at competitive rates.

2. <u>The prepayment fee on first home mortgage loans, permitted in G.S. 24-10(b)</u> (see Appendix II), <u>ought to be abolished for the same trial period</u>. The Committee's suggested language is found in Section 1 of its Legislative Proposal A.

One of the purposes of this fee is to reimburse the lender for the expense of placing a loan on his books. If the loan is repaid before the full term of the contract the lender may not receive enough to make up for this initial expense. The temporary elimination of the prepayment penalty would permit a homeowner who may feel that he was charged an excessive rate during the moratorium to refinance later without a prepayment penalty. This, the Committee felt, would provide further protection to the citizens of North Carolina during the test period.

This recommendation, like the earlier one suggesting the elimination of the interest rate ceiling, would be for a trial period until June 30, 1975. After that date, section 2 of the proposed act would provide for the automatic repeal of the proposed act.

3. <u>A Commission on Home Financing ought to be established</u>. (See Appendix VII, Legislative Proposal B.) The Commission would have the responsibility of reviewing the experiment of eliminating the usury rate and prepayment fee as they relate to home mortgage loans. Also included in the purview of the Commission's study is an analysis of those factors which increase the cost of the purchase of a home loan to a borrower. Specifically put forth in the resolution as subjects to be studied are the following: loan closing fees, late charges on loans, appraisal fees, escrow payments, interest in advance on home mortgage loans and prepayment fees.

The Special Committee on Home Financing of the Legislative Research Commission was unable because of time limitations and the structure of the home mortgage market to accumulate sufficient data to conduct the thorough and complete study that the entire matter of home financing in North Carolina needs. The Committee, however, recognizes the need for such a study. It is hoped that the Commission on Home Financing will be able to recommend to the 1975 legislature that the experiment concerning the usury rate be continued or made permanent, or that the experiment be abandoned as unsuccessful and that a new usury ceiling be enacted, either flexible or fixed. Besides the formulation of a permanent

solution to the problems surrounding home financing in North Carolina, this formal review would also serve the purpose of insuring that the public's interest is protected during the interim period.

The Commission would be independent of any State agency and would be made up of legislators, interested State officials and representatives of the consumer interest groups and financial institutions. The body would be authorized to employ both clerical and professional staff to insure a complete study.

APPENDICES

Appendix I

WITNESSES WHO APPEARED BEFORE THE

HOME FINANCING COMMITTEE

The Honorable Edwin Gill
State Treasurer

Mr. John W. Olive, Vice President
Daniel Financial Services, Inc.
Greenville, South Carolina

Mr. Wade Phillips, President
Winston-Salem Savings and Loan Association

Mr. Tommy Thompson, Regional Vice President
Lomas & Mettleton Company
Winston-Salem, North Carolina

Dr. William Wallace, Former Vice President
Federal Reserve Bank of Richmond

Dr. Philip M. Webster, Senior Vice President
Federal Home Loan Bank of Atlanta

Mr. Bill Whittington, Senior Vice President
Home Federal Savings and Loan Association
Kinston, North Carolina

APPENDIX II

PRESENT NORTH CAROLINA LAW

§ **24-1. Legal rate is six per cent.**—The legal rate of interest shall be six per cent per annum for such time as interest may accrue, and no more. (1876-7, c. 91; Code, s. 3835; 1895, c. 69; Rev., s. 1950; C. S., s. 2305.)

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§ **24-1.1. Contract rates.**—Except as otherwise provided in this chapter or other applicable law, the parties to a loan, purchase money loan, advance or forbearance may contract in writing for the payment of interest not in excess of:

(1) Eight percent (8%) per annum where the principal amount is fifty thousand dollars ($50,000.00) or less and is secured by a first mortgage or first deed of trust on real property; or

(2) Ten percent (10%) per annum where the principal amount is more than fifty thousand dollars ($50,000.00) but not more than one hundred thousand dollars ($100,000.00) and is a business property loan; or

(3) Nine percent (9%) per annum where the principal amount is one hundred thousand dollars ($100,000.00) or less and is not a transaction set forth in (1) or (2) above; provided, a minimum charge of ten dollars ($10.00) or one dollar ($1.00) per payment may be agreed to and charged in lieu of interest; or

(4) Twelve percent (12%) per annum where the principal amount is more than one hundred thousand dollars ($100,000.00) but not more than three hundred thousand dollars ($300,000.00); or

(5) Any rate agreed upon by the parties where the principal amount is more than three hundred thousand dollars ($300,000.00).

As used in this section, a "business property loan" is a loan, purchase money loan, advance or forbearance secured by real property of the borrower which is held or acquired for sale, lease or use in connection with the borrower's trade, business or profession other than farming and livestock operations, and the proceeds of which are to be used for the purpose of either acquiring, refinancing or improving such real property or in connection with such trade, business or profession of the borrower. A written statement of the borrower's intention to use the loan proceeds for such purpose, signed by the borrower and accepted in good faith by the lender, shall be conclusive evidence of the purpose for which the loan is made. As used in this section, interest shall not be deemed in excess of the rates provided where interest is computed monthly on the outstanding principal balance and is collected not more than thirty-one days in advance of its due date. (1969, c. 1303, s. 1.)

§ **24-10. Maximum fees on loans secured by real property.**—(a) No lender on loans made under G.S. 24-1.1 shall charge or receive from any borrower or any agent for a borrower, or from any agent, seller or broker, which inures to the benefit of the lender, any fees or discounts, in addition to the provisions of G.S. 24-10(b) or in addition to lawful interest in connection with any loan where the principal amount is less than three hundred thousand dollars ($300,000.00) and is secured by real property, which fees or discounts in the aggregate shall exceed two percent (2%) if a construction loan on other than a one or two family dwelling, one percent (1%) if a construction loan on a one or two family dwelling, and one percent (1%) if other than a construction loan; provided where a single lender makes the construction loan and the permanent loan utilizing one note, the lender may collect the fees herein provided for construction loans and the fees for other than construction loans.

(b) Any loan made under G.S. 24-1.1 in an original principal amount of one hundred thousand dollars ($100,000.00) or less may be prepaid in part or in full, after 30 days notice to the lender, with a maximum prepayment fee of two percent (2%) of the outstanding balance at any time within three years after the first payment of principal and thereafter there shall be no prepayment fee, provided that there shall be no prepayment fee charged or received in connection with any repayment of a construction loan; and except as herein provided, any lender and any borrower may agree on any terms as to prepayment of a loan.

(c) "Construction loan" means a loan which is obtained for the purpose of financing fully, or in part, the cost of constructing buildings or other improvements upon real property and the proceeds of which, under the terms of a written contract between a lender and a borrower, are to be disbursed periodically as such construction work progresses; and such loan shall be payable in full not later than 18 months in case of a loan made under the provisions of G.S. 24-1.1(1) or 36 months in case of any other construction loan made after the execution of the note by the borrower. A construction loan may include advances for the purchase price of the property upon which such improvements are to be constructed.

(d) Any lender may charge any person, persons, firm or corporation that assumes a loan made under the provisions of G.S. 24-1.1, where the principal amount assumed is not more than fifty thousand dollars ($50,000) and is secured by real property, a fee not to exceed one percent (1%) of the principal amount due or twenty-five dollars ($25.00), whichever is less. (1967, c. 852, s. 1; 1969, c. 40; c. 1303, s. 6; 1971, c. 1168.)

§ 53-45. Banks, fiduciaries, etc., authorized to invest in securities approved by the Secretary of Housing and Urban Development, Federal Housing Administration, Veterans Administration, etc. — (a) Insured Mortgages and Obligation of National Mortgage Associations and Federal Home Loan Banks.—It shall be lawful for all commercial and industrial banks, trust companies, building and loan associations, savings and loan associations, insurance companies, mortgagees and loan correspondents approved by the Secretary of Housing and Urban Development or Federal Housing Administration, and other financial institutions engaged in business in this State, and for guardians, executors, administrators, trustees or others acting in a fiduciary capacity in this State to invest, to the same extent that such funds may be invested in interest-bearing obligations of the United States, their funds or moneys in their custody or possession which are eligible for investment, in bonds or notes secured by a mortgage or deed of trust insured or guaranteed by the Federal Housing Administration, Secretary of Housing and Urban Development or the Veterans Administration, or in mortgages or deeds of trust on real estate which have been accepted for insurance or guarantee by the Federal Housing Administration, Secretary of Housing and Urban Development or Veterans Administration, and in obligations of a national mortgage association which obligations are insured or guaranteed by the United States Government, or bonds, debentures, consolidated bonds, or other obligations of any federal home loan bank or banks.

(b) Insured or Guaranteed Loans; Loans Purchased by National Mortgage Associations and Federal Home Loan Banks.—All such banks, trust companies, building and loan associations, savings and loan associations, insurance companies, mortgagees and loan correspondents approved by the Secretary of Housing and Urban Development, or Federal Housing Administration, and other financial institutions, and also all such guardians, executors, administrators, trustees or others acting in a fiduciary capacity in this State, may make such loans, secured by real estate, as the Secretary of Housing and Urban Development, the Federal Housing Administration, a national mortgage association, or the Veterans Administration has insured or guaranteed, or has made a commitment to insure or guarantee, and may obtain such insurance or guarantee; provided, further, that the above designated financial institutions, may make loans, secured by real estate, that are eligible and committed for sale to a national mortgage association, federal home loan bank, federal home loan mortgage corporation or other agency or instrumentality of the United States.

(c) Eligibility for Credit Insurance.—All banks, trust companies, building and loan associations, savings and loan associations, insurance companies, mortgagees and loan correspondents approved by the Secretary of Housing and Urban Development, or Federal Housing Administration and other financial institutions, on being approved as eligible for credit insurance by the Secretary of Housing and Urban Development, the Federal Housing Administration, or the Veterans Administration, may make such loans as are insured by the Secretary of Housing and Urban Development or Federal Housing Administration or insured or guaranteed by the Veterans Administration.

(d) Certain Securities Made Eligible for Collaterals, etc.—Whenever by statute of this State, collateral is required as security for the deposit of public or other funds; or deposits are required to be made with any public official or department; or an investment of capital or surplus, or a reserve or other fund is required to be maintained, consisting of designated securities, bonds, and notes secured by a mortgage or deed of trust insured or guaranteed by the Secretary of Housing and Urban Development, Federal Housing Administration, or Veterans Administration, debentures issued by the Secretary of Housing and Urban Development or the Federal Housing Administration and obligations of a national mortgage association shall be eligible for such purposes.

(e) General Laws not Applicable.—No law of this State prescribing the nature, amount or form of security or requiring security upon which loans or investments may be made, or prescribing or limiting the rates or time of payment of the interest any obligation may bear, or prescribing or limiting the period for which loans or investments may be made, shall be deemed to apply to loans or investments made pursuant to the foregoing paragraphs. (1935, cc. 71, 378; 1937, c. 333; 1959, c. 364, s. 1; 1961, c. 291; 1971, c. 888.)

Appendix III

MONEY MARKET RATES

	Prime Commercial Paper 90-119 days	U. S. Government Security 3-month bills (new issue)
1973		
January	5.76	5.307
February	6.17	5.558
March	6.76	6.054
April	7.13	6.289
May	7.26	6.348
June	8.00	7.188
July	9.26	8.015
August	10.26	8.672
September	10.31	8.478
October	9.41	7.155

(Source: Federal Reserve Bulletin, November, 1973, Table A33)

Appendix IV

AVERAGE GROSS YIELDS ON CONVENTIONAL HOME MORTGAGES
AUCTIONED BY THE
FEDERAL NATIONAL MORTGAGE ASSOCIATION

Selected Weekly Statistics

		1972	1973
January	2		7.842
February	14	7.741	
	21		7.919
March	13	7.613	
	20		8.020
April	10	7.664	
	17		8.169
May	8	7.770	
	14		8.314
June	5	7.800	
	11		8.442
July	17	7.798	
	23		8.791
August	14	7.798	
	20		9.265
September	4		9.525
	11	7.846	
October	1		9.430
	10	7.903	
November	6	7.897	
December	4	7.874	

(Source: Federal National Mortgage Corporation)

Appendix V

FSLIC-INSURED NORTH CAROLINA SAVINGS & LOAN ASSOCIATIONS

Savings Flow ($ Millions)

Period	No. of Assns.	New Sav. Rec.	Savings Withdrawn	Net New* Sav. Rec.	Interest Credited	Net Sav. Gain**
1972						
January	167	168.2	106.0	62.2	.0	62.2
February	167	127.7	58.1	69.6	.9	70.5
March	167	129.1	70.0	59.1	24.8	83.9
April	166	139.5	99.2	40.3	2.7	43.0
May	165	107.7	61.5	46.2	2.1	48.3
June	165	111.3	77.0	34.3	31.6	65.9
6 Months Total		783.5	471.8	311.7	62.1	373.8
July	165	144.0	100.7	43.3	.4	43.7
August	165	108.5	69.3	39.2	1.1	40.3
September	165	104.8	67.0	37.8	27.8	65.6
October	165	138.2	92.9	45.3	.2	45.4
November	165	99.7	62.5	37.1	2.2	39.3
December	165	104.8	71.4	33.4	32.4	65.7
6 Months Total		700.0	463.8	236.1	64.1	300.0
Year Total 1972		1,483.5	935.6	547.8	126.2	673.8
% Change '71-'72		+29.4	+32.8	+24.0	+14.7	+22.1
1973						
January	165	203.5	137.3	66.2	.2	66.4
February	164	119.4	76.8	42.6	1.8	44.4
March	164	127.0	84.4	42.5	33.2	75.8
April	164	156.6	130.8	25.8	.6	26.4
May	164	124.4	83.1	41.4	3.3	44.7
June	164	119.2	88.8	30.4	40.3	70.7
6 Months Total		850.1	601.2	248.9	79.4	328.4
July	164	177.3	163.4	13.9	.4	14.3
August	164	138.6	144.2	-5.6	1.6	-4.0
September	164	117.3	103.5	13.8	36.2	49.9
October	163	163.5	150.2	13.3	.4	13.7

*New savings received less savings withdrawn.
**Net new savings received plus interest credited.
NOTE: Detail may not add due to rounding.

(Source: Federal Home Loan Bank)

Appendix VI

MORTGAGE LENDING ACTIVITY
OF
FSLIC-INSURED NORTH CAROLINA
SAVINGS AND LOAN ASSOCIATIONS

Total Loans Closed in Millions of Dollars

	1972	1973
January	66.7	88.9
February	85.6	99.5
March	111.5	116.8
April	90.9	130.4
May	121.0	137.6
June	138.0	153.6
Six Month Total	613.7	726.8
July	103.9	128.4
August	119.6	121.5
September	106.5	68.8
October	112.5	70.3
November	110.6	
December	102.5	
Six Month Total	655.8	
Year Total	1269.5	
Percent Change	+34.0	

(Source: Federal Home Loan Bank)

APPENDIX VII

LEGISLATIVE PROPOSALS

APPENDIX VII

LEGISLATIVE PROPOSAL A

A BILL TO BE ENTITLED

AN ACT REMOVING THE USURY RATE CEILING AND PRE-PAYMENT PENALTIES ON ALL FIRST HOME MORTGAGE LOANS UNTIL JUNE 30, 1975.

The General Assembly of North Carolina enacts:

Section 1. Article 1 of Chapter 24 of the General Statutes is hereby amended by adding a new section immediately after G. S. 24-1.1, to be numbered G. S. 24-1.1a and to read as follows:

"§ 24-1.1a. Contract rates on home mortgage loans. -- (a) Notwithstanding any other provision of this chapter or any other provision of law, the parties to a first home mortgage loan may contract in writing for the payment of interest at any rate agreed upon by the parties.

(b) Notwithstanding any other provision of this chapter or any other provision of law, such contract shall provide that no prepayment penalties shall be charged to any party with respect to any such first home mortgage loan."

Sec. 2. This act shall become effective upon ratification and shall expire on June 30, 1975.

APPENDIX VII

LEGISLATIVE PROPOSAL B

A JOINT RESOLUTION ESTABLISHING THE COMMISSION ON HOME FINANCING TO MAKE A STUDY OF ALL ASPECTS OF HOME FINANCING IN THIS STATE.

Whereas, during the last few years because of, among other forces, the restrictive monetary policies of the federal government the cost of securing a home loan has exceeded with regularity the usury rate set on home mortgages by the General Assembly; and

Whereas, the net result of the above situation has been to make it difficult or impossible for the majority of potential home buyers to secure a conventional home loan during those tight money periods; and

Whereas, the Special Committee on Home Financing of the Legislative Research Commission, during 1973 recommended that the 1974 General Assembly abolish the usury rate as it concerns first home mortgages for a trial period until June 30, 1975; and

Whereas, the Special Committee on Home Financing has also recommended a complete and thorough study of all aspects of the cost to the purchaser of a home loan;

Now, therefore, be it resolved by the Senate, the House of Representatives concurring:

Section 1. There is hereby created a Commission on Home Financing.

Sec. 2. The Commission shall consist of fourteen members appointed as follows: three representatives appointed by the Speaker of the House, three senators appointed by the President of the Senate, the Commissioner of Banks or his representative, the Director of the Savings and Loan Division of the Department of Commerce or his representative, and one representative from each of the following organizations: the North Carolina Association of Realtors, the Association of Mortgage Bankers of North Carolina, the North Carolina Savings and Loan League, the North Carolina Home Builders Association, the State Council for Social Legislation and the North Carolina Consumers Council.

Sec. 3. The Commission shall elect from its membership a chairman and such other officers as it deems necessary.

Sec. 4. The Commission shall adopt its own rules of procedure and shall meet at such times and in such places as it may deem necessary to carry out its functions.

Sec. 5. The Commission is hereby directed to study all aspects of home financing in this State, as such might affect the availability of home loan mortgage money and the total cost of a home loan. The study should include but should not be limited to analysis of the following as applicable to home mortgages: usury rates, loan closing fees, late charges, appraisal fees, escrow payments, interest in

advance on home mortgage loans and prepayment fees.

Sec. 6. The Commission on Home Financing shall report its findings and recommendations to the 1975 General Assembly.

Sec. 7. The Commission may employ such assistance, both clerical and professional, and procure such materials, supplies and services as it deems necessary to the performance of its duties. With the consent of the Secretary or head of a State agency or department, staff personnel may be assigned or otherwise utilized to assist the Commission. Upon the request of the Commission, all State departments and agencies shall furnish the Commission with any information in their possession.

Sec. 8. The expenses of the Commission shall be paid from the Contingency and Emergency Fund pursuant to General Statute 143-12.

Sec. 9. Members of the Commission who are members of the General Assembly shall receive subsistence and travel allowance at the rate set forth in G. S. 120-3.1(b) and (c). Members of the Commission who are not employees of the State of North Carolina and who are not members of the General Assembly shall receive per diem compensation and travel expenses at the rate set forth in G. S. 138-5. Members of the Commission who are employees of the State of North Carolina shall receive travel allowances at the rate set forth in G. S. 138-6.

Sec. 10. Any supplies or equipment not used by the Commission shall become the property of the General Assembly

upon termination of the Commission.

Sec. 11. This resolution shall become effective upon ratification.

APPENDIX VIII

1974 MINORITY REPORT

LEGISLATIVE RESEARCH COMMISSION

A STUDY OF HOME FINANCING IN NORTH CAROLINA

CONTENTS

MINORITY REPORT

by

DISSENTING MEMBERS OF THE SPECIAL COMMITTEE ON HOME FINANCING OF THE LEGISLATIVE RESEARCH COMMISSION

The dissenting members of this Committee were disappointed in the lack of information and data made available to the Committee regarding the "--scarcity of loan funds for home financing in North Carolina."

Early in the proceedings of the Committee, it became apparent to the dissenting members that little information would be made available. For this reason, we concluded that a more objective study should be made. The findings of this study are attached to this Minority Report.

During the Committee hearings certain information was presented which is not contained in the Majority Report, including:

1. At the October 26, 1973, meeting it was stated by a member of the Committee that the average return of one state savings and loan is 7.38% and that the necessary margin on loans is 1.2%, to pay expenses but a 2% margin is needed to take care of reserves.

2. During the latter part of 1973, savings and loan associations in Virginia were making home loans at from 9% to 9 1/2% per year.

3. Only 19% of the total loan portfolio can be made by North Carolina savings and loans for non-home loans.

4. The state-wide average return on money for savings and loans is 7.527%, and the average cost of money is 5.784%. Basic operating costs are 1.2%. At least a 5% reserve is required to qualify for federal savings and loan insurance. Mr. Wade Phillips, President of the Winston-Salem Savings and Loan Association and Mr. Harry W. Wentworth, Executive Vice-President of the N. C. Savings and Loan League stated that savings and loan associations needed a spread (or margin) of 2% or more. In 1973, the margin was 1.843% as compared with 1.665% in 1972.

5. 80% of all home loans made in North Carolina during the year ending on June 30, 1973, were made by savings and loan associations. The federal money markets have only a very small influence on the cost of money used by savings and loans.

6. The current shortage of home loan funds is due to the federal government's restricting credit policies and accompanying high money rates. Only a change in these policies (less restrictive money and lower interest rates) will enable savings and loans

to provide needed funds for home loans.

7. The state of Virginia has no interest ceiling on home loans, but it's savings and loan associations showed an earlier and sharper drop in home lending than North Carolina associations (TABLE I attached).

8. Although abundant home loan funds have and continue to be available at an overall cost of 9% or more through FHA-insured loans, there has been a drop in lending (TABLE II attached).

9. Not one table, chart or other evidence was submitted to the Committee which indicated that the home loans in North Carolina were less available than in any of the other 49 states.

10. North Carolina home mortgages are of a higher caliber than those of any of the other 49 state--lowest foreclosure rate.

11. Recently, there has been a definite trend by the federal government and others to reduce interest rates by a variety of actions.

Findings and Conclusions

From the evidence presented to the Committee, the dissenting members find and conclude:

A. The high cost of obtaining a home loan (which are readily available under FHA, VA and other programs) is the prime cause in the reluctance of the public to purchase homes.

B. North Carolina savings and loan associations are doing a better job in attracting and holding deposits and in providing money than savings and loans in Virginia (a state with no interest rate ceiling), and other states in the Southeast and the other 49 states in the nation as a whole.

C. Virginia has no ceiling on home mortgage interest rates--and both its savings and loans and the home borrowers appear to be suffering more than North Carolina savings and loans and the home borrowers in 1973.

D. The average interest rates charged by a Virginia savings and loan for home loans in 1972 and 1973 has ranged from a low of 7.63% (January, 1972) to a high of 9.14% (October, 1973). The Committee was reliably informed that the prevailing rate of conventional home loans charged during the latter part of 1973 by Virginia savings and loans was from 9% to 9 1/2%.

E. North Carolina home buyers have better access to home loan money in larger quantities and at lower rates than home buyers in other states.

F. Savings and loan associations in North Carolina, "The major providers of home loan funds at reasonable rates," continue to enjoy uninterrupted prosperity.

G. The national money markets have a very small influence upon North Carolina savings and loans.

Recommendations

The minority members of the Special Committee on Home Financing of the Legislative Research Commission recommends to the 1974 Session of the General Assembly the following:

I

That the General Assembly not follow the Majority's recommendation to enact legislation eliminating for a temporary trial period the interest rate ceiling on first home mortgage loans.

II

That the Majority's recommendation of a joint resolution establishing a commission to study home financing in this state be modified to the end that the non-legislative members of the commission have equal representation of the borrowing public (the Majority's recommendation directs that four of the six public members be from associations who have already gone on record as being in favor of removing all interest rate ceilings on all home loans).

III

That the General Assembly in considering this matter should give consideration to the strengths of the 8% interest ceiling now prevailing in North Carolina, which the Majority Members of the committee did not take into consideration.

IV

That North Carolina retain its 8% interest ceiling on first mortgage home loans.

DISSENTING MEMBERS:

Ruth E. Cook
Mrs. Lillian Woo
Richard S. Clark

TABLE I

SINGLE FAMILY HOMES -- LOANS MADE BY FSLIC INSURED S & L ASSOCIATIONS

($ Millions)

	North Carolina	Virginia
June, 1972	$ 84.5	$66.6
June, 1973	110.0	90.8
	$ 25.5 increase	$24.2 increase
July, 1973	$73.0	$62.5
July, 1973	92.4	74.2
	$19.4 increase	$11.7 increase
August, 1972	$82.1	$77.7
August, 1973	89.5	58.0
	$ 7.4 increase	$19.7 decrease
September, 1972	$70.3	$62.7
September, 1973	51.9	32.8
	$18.4 decrease	$29.9 decrease

TABLE II

FHA HOME LOAN COMMITMENTS IN NORTH CAROLINA FOR SINGLE FAMILY DWELLINGS

($ Millions)

	1971	1972	1973
January	$10.965	$15.267	$ 6.529
February	9.620	8.715	4.363
March	9.214	9.767	5.578
April	7.446	8.606	5.690
May	15.896	11.197	4.504
June	12.223	8.848	4.861
July	15.519	8.272	5.947
August	20.889	9.439	3.099
September	7.618	5.650	3.984
October	9.596	6.350	--
November	10.866	7.638	--
December	13.949	4.384	--

TABLE OF CONTENTS

AN OVERVIEW OF--

HOME FINANCING IN NORTH CAROLINA

It is important that adequate home loan funds at reasonable interest rates be accessible to North Carolina home buyers. This has been the prevailing situation in North Carolina.

During the 2nd and 3rd quarters of 1973, a nationwide shortage of home loan funds developed. Although there are indications that the "money squeeze" is easing, it will be early 1974 before information confirming or contradicting these indications is available.

If there is a scarcity of home loan funds in 1974, it is likely that serious attempts will be made to amend North Carolina's 8% interest ceiling as it applies to home loans.

This study is designed to provide essential information related to long-term 1st mortgage home loans. See page 13 for summary data and page 15 for conclusions.

WHAT HAS NORTH CAROLINA DONE ABOUT ITS USURY LAW

Until six years ago, the usury (interest) ceiling on home loans was 6% per year. At the request of the savings and loan associations, the 1967 General Assembly increased the ceiling to 7%.

In 1969, the ceiling was raised to the present 8%. Specific authority was given permitting lending institutions to charge a 1% loan fee, and an additional 1% construction loan fee, which entitles the lender to earn up to 8.25% per annum.

Since 1969, no serious attempts have been made to alter the usury law as it affects home financing.

In early 1973, home loan funds became scarce in many states and a few of these states adjusted their usury laws in an effort to attract money for home loans. However, at this time, North Carolina home loan financing had not been substantially affected and the 1973 session of the General Assembly was not requested to change North Carolina's usury law.

The present state laws relating to home loans include the following:

1. G. S. 24-1.1(1)- 8% per annum interest rate ceiling on loans up to $50,000.

2. G. S. 24-10 (a)- 1% loan fee and 1% construction loan fee.

3. G. S. 24-10 (b)- Lender may charge 2% penalty if loan prepaid within three years; no prepayment penalty thereafter. State chartered savings and loans may not charge any prepayment penalty - G. S. 54-22
4. G. S. 24-1.1 (last sentence) - interest may be collected no more than 31 days in advance.

5. G. S. 24-10 (d)- Transfer of loan or assumption fee of 1% of loan balance, not to exceed $25.00.

6. G. S. 53-45 (e)- FHA and VA loans are not subject to North Carolina Usury Law.

SOME SEE A PROBLEM

By springtime, 1973, borrowing money became very expensive. In financial parlance, it was a period of "tight money." The "prime rate" (interest rate a commercial bank charges its best customers) reached historical peaks, but is now receding.

Mortgage bankers complained that North Carolina 8% conventional home mortgages were not readily salable on the national money market.

In July of 1973, federal regulations removed the ceiling on the interest rate which savings and loans and banks could pay on long-term certificates. Interest rates on federal bonds increased. The net affect of these changes has been a reduction in net savings gains of North Carolina's savings and loans. During the 3rd quarter of 1973, this state's federally insured associations realized a net savings gain of $50.2 Million, as compared with a $150.6 Million gain during the same quarter of 1972. Interestingly, savings and loans in the other 49 states as a whole, experienced a net savings loss during the 3rd quarter of 1973.

These factors did not prevent North Carolina savings and loans from increasing their rate of investment in residential mortgages during the first three quarters of 1973.

Recently, there appears to have been a decrease in loan closings by savings and loans. However, there has been no noticeable slowdown by a variety of home loan lenders in North Carolina and one of the large commercial banks has made the unusual commitment to invest $50 Million in 8% single family home loans to North Carolinians.

While there are many factors affecting the availability of funds for home mortgages, few of which are subject to the control of the North Carolina General Assembly, some groups are suggesting

a change in the state 8% usury law as it applies to home financing. These groups include:

N. C. Home Builders Association
N. C. Association of Realtors
Association of Mortgage Bankers of N. C.
N. C. Savings and Loan League

The thrust of their recommendation is to change the 8% interest ceiling by either (a) increasing the ceiling, (b) removing the ceiling or (c) discarding the fixed ceiling and replacing it with a flexible ceiling.

WHO MAKES HOME LOANS IN NORTH CAROLINA

- Savings and Loan Associations Make - - - 80% OF LOANS

- All Other Lenders Make - - - 20% OF LOANS

  - - FHA Insured Loans
  - - VA Guaranteed Loans
  - - Federal Land Bank Loans
  - - Other Conventional Loans
  - - Farmers Home Administration Loans

SAVINGS AND LOAN ASSOCIATIONS

The nation's savings and loan associations are the major sources (48% of non-farm home loans nationwide) of home loan money. This is particularly true in North Carolina, where savings and loans make 80% of all long term home loans.

Interest rates on conventional home loans up to $50,000 are subject to North Carolina's 8% per annum interest ceiling. During the last part of 1973, the great majority of home loans closed by savings and loan associations was 8% loans.

During the 12-month period ending on September 30, 1973, North Carolina's savings and loans invested about $1.2 Billion in single family home mortgages.

Of the 179 associations in this state, 140 are state chartered and 39 are federally chartered. Savings deposits are insured up to $20,000. The deposits in the 39 federally chartered and 126 of the state chartered associations are insured by the Federal Savings and Loan Insurance Corporation (FSLIC insured) - - so these 165 associations are often referred to as federally insured. The remaining 14 associations insure deposits with the North Carolina Savings Guaranty Corporation.

Depositors (savings accounts and certificates) supply between 88% and 94% of the money loaned by savings and loans. Money borrowed by associations from the Federal Home Loan Bank represents about 6% to 12% of the cash assets of the associations. EVERY MONTH, SOME $35 MILLION in principal and interest are repaid to savings and loans on existing loans.

The law dictates that 81% of all funds invested in loans must be secured by home mortgages. The remaining 19% may be loaned for non-residential purposes.

In August, 1973, the 165 federally insured associations in this state had $4,600,641,000 invested in conventional home loans and $74,417,000 invested in FHA insured and VA guaranteed home loans.

This compares with $3,781,466,000 in conventional and $76,055,000 in FHA-VA loans in August, 1972. These figures do not include loans by the 14 North Carolina savings and loan associations which are not federally insured.

The total assets of savings and loans in North Carolina exceed $5.2 Billion.

Currently, associations in North Carolina are paying their depositors an average of 5.784% per annum and are realizing a gross annual return on loans which averages 7.527%. This 1.742% margin provides a gross margin of well over $8 Million per year to North Carolina's savings and loan associations.

FHA INSURED LOANS

FHA (Federal Housing Administration) insured loans are available to North Carolina home buyers at interest rates of 8 1/2% per annum plus another 1/2% per annum for FHA insurance (insuring the lender against any loss). Both the interest and insurance (9% per annum) are added to the monthly payments. IN JANUARY, 1974, INTEREST RATE REDUCED FROM 8 1/2% to 8 1/4%.

Often a discount is made from the loan proceeds (currently 1% to 3%). This discount is usually added to the purchase price of the home so the home buyer is likely to pay more for a FHA-financed home than for one financed conventionally.

Although the overall cost to the FHA loan home buyer is relatively expensive, 95% of the appraised value of the home can be borrowed (as opposed to 75% to 85% for a conventional loan).

Federal law controls interest charges on FHA insured loans, which are not subject to North Carolina usury law. G. S. 53-45(e).

During the 12-month period ending on September 30, 1973, $62.9 Million in FHA insured commitments for single family units were approved

Adequate money is available for FHA insured loans.

VA GUARANTEED LOANS

VA (Veterans Administration) guaranteed home loans may be obtained by qualified persons at current interest rates of 8 1/2% per annum. Interest rates are determined by the federal government and not by this states usury law. IN JANUARY, 1974, INTEREST RATE REDUCED TO 8 1/4%.

Currently, a discount of 1% to 3% is deducted from VA loan proceeds. Although the discount is paid by the seller of the home, the seller generally raises the sales price on the home to cover the discount.

Up to 100% of the appraised value of the home may be borrowed.

It is estimated that between $100 Million and $150 Million in VA loans are made to N. C. home buyers each year.

There is no shortage of funds available for VA guaranteed loans.

FEDERAL LAND BANK LOANS

Beginning in June, 1972, the Federal Land Bank of Columbia began making home loans in all parts of North Carolina, except in towns and cities having populations of 2,500 or more. Currently, interest rates are 7 3/4% per annum.

Home borrowers are required to invest 5% of the loan proceeds in stock of the Land Bank, which is redeemable when the loan is repaid.

Land Bank home loans may only be made for homes with constructions costs which do not exceed $40,000. The amount of the loan cannot exceed 85% of the appraised value of the property.

Since the program began in the middle of 1972, the Land Bank has invested over $15 Million in home mortgages in North Carolina. Land Bank officials intend to increase the rate of home loan lending in North Carolina which has been hampered by the usual problems (procedures and adequately trained staff) encountered in beginning a new loan program.

The source of Land Bank funds is the national money market. No governmental funds are involved.

OTHER CONVENTIONAL LOANS

Conventional loans closed by mortgage bankers (Cameron-Brown, N.C.N.B., Lomas & Nettleton, etc.) are usually sold out-of-state. Since April, 1973, such loans have been yielding a gross return of as high as 9.676%. By the end of 1973, the gross return on such home mortgages was slightly less than 9% per annum. A recent informal survey of mortgage bankers revealed that in spite of the national money markets, 8% conventional home loans closed in N. C. during the first nine months in 1973 exceeded those closed during the same period in 1972.

Although there are no official figures available as to such conventional home loans closed, indications are that, annually, approximately $ 85 Million to $135 Million are invested by out-of-state lenders in N. C. home loans.

North Carolina National Bank has recently set aside $50,000,000 for 8% conventional home loans to N. C. home buyers in 1973. Maximum loan amount of $45,000 ; minimum loan amount of $20,000. Other commercial banks invest in home mortgages on a selective basis.

FARMERS HOME ADMINISTRATION LOANS

Farmers Home Administration loans are available at reasonable rates to low- and moderate-income families. Such loans are not permitted in towns and cities having populations of 10,000 or more.

These loans are only available to those having an "adjusted gross family income" of less than $9,300. In effect, loans are available only to families with incomes of less than $12,000 per year.

This program provides "modest but adequate living quarters" with 1,400 or less square feet. In practice, homes having between 1,000 and 1,200 square feet are being financed ($17,000 to $19,000).

Farmers Home loans have these features:

--loans of up to 100% of appraised value

--low closing costs, without usual 1% loan fee

--gross annual interest rate of 8 1/2% with federal interest subsidy which reduces borrower's interest cost to as low as 1% per annum (interest subsidy possible for those having "adjusted gross family income" of less than $7,000)

--money is plentiful, but recent regulations (sub-division requirements, building codes, etc.) have made it difficult for builders to make profit

During the fiscal year ending June 30,1973, 6,695 loans were made to N. C. home buyers in the total amount of approximately $92 Million.

FEDERALLY SUPPORTED HOME LOANS

Home loan funds are available to North Carolina home buyers from federal agencies such as the Federal National Mortgage Association and the Federal home loan Mortgage Corporation.

Loans by these federal agencies are not subject to the usury laws of this state (G. S. 53-46(e)). Rates are determined by the federal agency making the funds available.

MONTHLY PAYMENTS

30-YEAR LOANS - PAYMENTS OF PRINCIPAL AND INTEREST (not including taxes and insurance) - REPAYMENT OF PRINCIPAL AND INTEREST - 360 Monthly Payments -

AMOUNT OF LOAN	ANNUAL INTEREST RATE	MONTHLY PAYMENTS	TOTAL COST
$15,000.00	7%	99.80	$35,928.00
	8%	110.07	39,625.20
	9%	120.70	43,452.00
	9 1/2%	126.13	45,406.80
$20,000.00	7%	133.07	$47,905.20
	8%	146.76	52,833.60
	9%	160.93	57,934.80
	9 1/2%	168.18	60,544.80
$25,000.00	7%	166.33	$59,878.80
	8%	183.45	66,042.00
	9%	201.16	72,417.60
	9 1/2%	210.22	75,679.20
$30,000.00	7%	199.60	$71,856.00
	8%	220.13	79.246.80
	9%	241.39	86,900.40
	9 1/2%	252.26	90,813.60
$35,000.00	7%	232.86	$83,829.60
	8%	256.82	92,455.20
	9%	281.62	101,383.20
	9 1/2%	294.30	105,948.00
$40,000.00	7%	266.13	$95,806.80
	8%	293.51	105,663.60
	9%	321.85	115,866.00
	9 1/2%	336.35	121,086.00

LOAN CLOSING COST

NORMAL LOAN CLOSING COST - $25,000.00 LOAN

CONVENTIONAL LOAN-		FHA OR VA-
250.00	Loan Fee	250.00
250.00	Attorney's Fee	275.00
--	Title Insurance	65.00
--	Survey	45.00
50.00	Appraisal	40.00
10.00	Credit Report	10.00
--	Photo, Insp. Fee	10.00
6.50	Recording Fee	6.50
$566.50		$701.50

Note 1- Although closing costs may vary, the above figures are representative.

Note 2- If there is a construction loan, the lending institution may charge an additional fee of $250.00 (1% of loan).

Note 3- Closing costs on conventional home loans handled by mortgage bankers will usually cost about the same as FHA and VA closing costs.

RECENT AMENDMENTS AND PROPOSALS IN OTHER STATES

New York--

Until recently, New York maintained a 7 1/2% ceiling on home loans. In 1973, the New York General Assembly amended its law,granting to the Banking Board authority until March 1, 1975, by a 3/5ths vote of the Board to:

(a) set interest rates of between 5% and 8% per annum.

(b) after public hearings and "findings" the Banking Board authorized to prescribe an additional 1/2% per annum interest ceiling above the 8% per annum ceiling.

Pennsylvania--

The Governor's Commission on Mortgage and Interest Rates has recommended that fixed ceiling approach be discarded and replaced by flexible ceiling.

The Commission recommends that monthly flexible ceiling on residential mortgage interest rates be constructed by adding 2.50% units to the interest rate for United States Government long term bonds for the second preceding month as published in the Federal Reserve Bulletin.

THE PENNSYLVANIA LEGISLATURE REJECTED THE COMMISSION'S RECOMMENDATIONS AND RETAINED ITS 8% INTEREST CEILING ON ALL RESIDENTIAL REAL PROPERTY LOANS.

South Carolina--

Until 1973, South Carolina had a 8% ceiling on home loans in amounts of not more than $50,000. In 1973, the South Carolina General Assembly amended its law to provide the following:

(a) increased interest rate ceiling on loans on real estate in an amount of not more than $50,000 , from 8% to 9% per year, until and including June 30, 1975.

(b) no escalation of interest on existing contracts.

(c) no penalty for early repayment.

DATA CONCERNING LONG-TERM HOME LOANS

(1) Variable interest rates, which change (up or down) during a loan contract period, would not attract substantial investments in home mortgages. Investors in long-term mortgages wish to be assured that earnings will not decrease.

(2) N. C. savings and loans are doing a better job in attracting and holding deposits and in providing home mortgage money than savings and loans in Virginia (a state with no interest rate ceiling), other states in the Southeast and the other 49 states in the nation as a whole.

(3) The average interest rates charged by a Virginia savings and loan for home loans in 1972 and 1973 has ranged from a low of 7.63% (January, 1972) to a high of 9.14% (October, 1973).

(4) N. C. Home Mortgages are of a higher caliber than those of any of the other 49 states--lowest foreclosure rate.

(5) Under present N. C. Law (8% interest and 1% loan fee), conventional loans can provide a gross annual return of 8.125%.

(6) The national money markets have a very small influence upon North Carolina savings and loans.

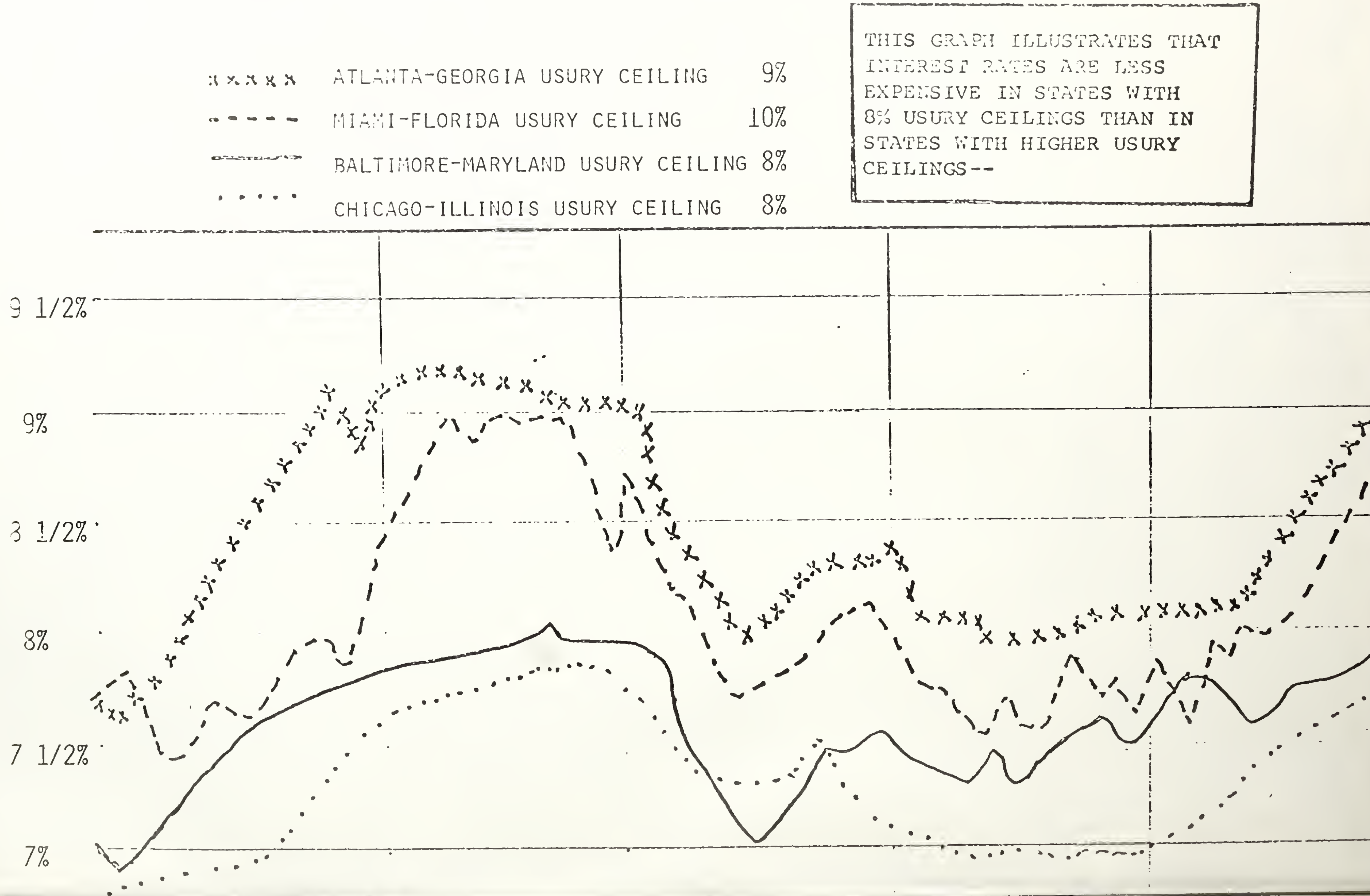
(7) Home loans are generally considered the safest investment, so interest rates are usually lower than on any other type of loan.

(8) Neither FHA insured nor VA guaranteed home loans are affected by this state's Usury Law.

(9) Although a few states have a flexible rather than a fixed interest rate ceiling, there is little agreement as to what guide (long-term government bond rate, Federal Reserve rate to member banks, or other) should be used.

EFFECTIVE INTEREST RATE ON 1st MORTGAGE CONVENTIONAL LOANS

- NEW HOME PURCHASES - - - - ALL MAJOR LENDERS -



IS THERE A PROBLEM!!

Available evidence tends to establish that the following conditions prevail in North Carolina:

A. North Carolina home buyers have better access to home loan money in larger quantities and at lower rates than home buyers in other states.

B. Savings and loan associations in North Carolina, the major providers of home loan funds at reasonable rates, continue to enjoy uninterrupted prosperity.

C. The availability of substantial home loan funds to North Carolina home buyers from a variety of lenders, including the Federal Land Bank, a large commercial bank, the Farmers Home Administration, FHA and VA lenders, etc. is abundant.

D. Reasonable loan closing costs for home loan mortgages now exist.

Those who seek change in the 8% interest ceiling must first of all establish that these favorable conditions do not exist, and then they must present convincing proof that their recommendations will create more favorable conditions for North Carolinians.